Postal Regulatory Commission
Submitted 2/2/2017 6:40:52 AM
Filing ID: 98885
Accepted 2/2/2017

Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Annual Compliance Report, 2016 : Docket No. ACR2016

INITIAL COMMENTS OF THE GREETING CARD ASSOCIATION

The Greeting Card Association (GCA) files these comments pursuant to Order No. 3717. GCA, which represents about 200 greeting card publishers and related enterprises, is the only postal trade association which speaks for the household mail user. In this Docket, we return to an issue we raised in Docket R2017-1: the effects of the (now expanded) price differential between Stamped and Metered Single-Piece First-Class Letters.

I. ISSUES PRESENTED BY THE METERED LETTER DIFFERENTIAL

Background. The history and stated purpose of the Metered Letter price differential were treated extensively in GCA's comments in Docket R2017-1[1], and rather than repeat that discussion we respectfully refer the Commission to that pleading.

Briefly: the differential was established at one cent, with a view to encouraging small and mid-sized businesses to switch from stamps to postage meters, and to generating some processing savings for the Postal Service. It was initiated as a promotion; no estimates of potential stamps-to-meters conversion or the business-sector market for such conversion, or of the savings expected, were

[1] Docket No. R2017-1, *Comments of the Greeting Card Association* (November 1, 2016) ("R2017-1 Comments").

provided. The differential has fluctuated since then, and is now three cents. Because metered letters were chosen as the benchmark for Presort rates (Docket RM2010-13, Order No. 1320), Presort rates are now calculated from the Metered Letter rate, and are thus lower than they would be if there were still only a single first-ounce rate for machinable Single-Piece Letters.

GCA raised two fundamental questions concerning the differential: (i) has it succeeded? and (ii) particularly if it has not, is it (still) an acceptable basis for constructing Presort rates?[2]

We suggested that the Commission inquire into whether the Metered Letter differential had succeeded in persuading stamp-using businesses to convert to meters, whether it had elicited new letter volume, whether it had generated processing savings, and what evidence there might be that businesses enjoying the differential were to an appreciable extent *new* converts to metering (rather than established meter users for whom the promotional aspect of the rate break would be meaningless).

The present situation. In our November 2016 comments, we showed that, through FY 2015, the differential did not appear to have succeeded in its promotional purpose.[3] While Single-Piece letter volume declined generally between FY 2013 and FY 2014, and again between FY 2014 and FY 2015, the categories we grouped as "Metered-eligible" declined faster – even when Stamped Letter volume rose slightly (FY 2015). The trend between FY 2015 and FY 2016 is less clear-cut, but should be examined carefully before hazarding the opinion that the promotion is now pulling its weight from the viewpoint of the postal system as a whole.

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[2] We of course agree that these rates must start from the metered letters benchmark, for the reasons explained by the Commission in Order 1320. The question is whether the *differential* – especially at its new, higher level – is inappropriately depressing Presort rates, almost certainly at the expense of Single-Piece mailers, and particularly those using stamps.

[3] R2017-1 Comments, Table A and B, at pp. 4, 5.

TABLE A. VOLUME CHANGES, FY 2015 to FY 2016.

INDICIA TYPE	FY 2015 (000)	FY 2016 (000)	CHANGE
Metered	77,603	26,211	- 66.22%
IBI	6,914,882	6,860,756	- 0.78%
Other	20,979	19,735	- 5.93%
Total Metered-eligible	7,013,464	6,906,702	- 1.52%
Stamped	11,520,716	10,852,471	- 5.80%
PVI	64,201	55,540	- 13.49%
Total not eligible	11,584,917	10,908,011	- 5.84%
Total	18,598,381	17,814,713	- 4.21%

As in our R2017-1 comments, we have omitted Permit Imprint volume, on the ground that it represents mostly larger mailers already likely to use meters. Unlike the previous comparisons, the FY 2015/2016 matchup does show a smaller decline for IBI-paid letters than for other types, and a smaller decline for Metered-eligible mail than for the indicia types not eligible for the rate break.

In GCA's view, this relatively small uptick does not demonstrate that the Metered Letter differential has been worthwhile. First, Metered (i.e., non-IBI) letters declined by some 51 million pieces. It seems likely that little, if any, of this change represents reversion to stamps by the mailers concerned. If so, then part of the apparently encouraging result in the IBI category would represent no more than conversion from one type of meter to the other. In addition, we should recall that the promotional rate differential was explicitly aimed at *business* mailers, whereas stamped mail is more likely to originate in households.[4] These customer groups are sufficiently distinct to suggest that the disparity in rates of decline between Metered-eligible and Metered-ineligible letters may reflect basic economic differences between the user groups rather than an accelerating movement away from stamps among business mailers.

From the revenue viewpoint, however, the larger effect is the reduction – unconnected with worksharing savings – in the Presort rates calculated on the basis of the Metered Letter price. In FY 2016, there were about 37.6 billion Non-Automation Presort and Automation Letters. Increasing the Metered Letter differential by a half-cent drove the related rates down by the same amount, implying a revenue sacrifice[5] of about $188 million.

As in Docket R2017-1, the Postal Service's filings here provide no information on estimated cost savings from stamps-to-meter conversions, nor on any increase in or retention of Single-Piece volume attributable to the Metered Letter differential.[6]

II. THE DIFFERENTIAL IN THIS COMPLIANCE REVIEW

Statutory provisions affected. The Commission's assessment of whether the Metered Letter differential – particularly at its new level of three cents – violates any provision of ch. 36 should recognize that under current circumstances the Postal Service is strongly motivated to set prices as close to the cap as it can.[7] This means that when some rates in First Class are reduced, payers of the remaining First-Class rates must make up the difference. In this case, it will be

[4] See Docket No. R2013-10, *United States Postal Service Notice of Market-Dominant Price Adjustment,* pp. 18 et seq.; particularly, p. 20, where both the business/household distinction and the business-focused promotional purpose are explained.

[5] Neglecting any possible volume effects.

[6] The Public Representative also commented on these informational gaps in the R2017-1 filing. See Docket R2017-1, *Public Representative Comments,* p. 8.

[7] In Docket R2017-1, for example, First-Class prices were increased 0.778 percent, close to the available cap space of 0.802 percent. See Order No. 3610, p. 20.

stamp-using mailers of Single-Piece Letters (vis-à-vis meter users), and Single-Piece users generally, in view of the differential's depressing effect on Presort prices. If this revenue loss were outweighed by volume increases and/or operational savings, it might be acceptable in terms of the *overall* welfare of the postal system and its customers. But information on these potentially countervailing phenomena is lacking on this record, as it has been since the launching of the differential in FY 2014.

Over the history of the Metered Letters differential, the only publicly available data suggest that its volume-inducing effect has been nil, or, in the last year, no more than problematic. If there is little or no new Metered Letter volume, there seemingly cannot be significant new operational savings.

So far as volumes are concerned, we do have published data from which the differential's effect, or lack of it, can be estimated. There is, however, no record information concerning the degree, if any, to which the differential has actually induced stamp-using mailers to switch to meters. The Public Representative in Docket R2017-1 stated the problem appropriately:

> . . . Although the Postal Service claims that it aims "to encourage small- and medium-sized businesses to convert from stamps to meters" . . . the proposal also reduces the price paid by current meter users. It is unclear whether meter volume will increase enough and stamp volume will remain stable enough to offset the reduction in revenue to the Postal Service resulting from the decreased meter price. . . . A targeted promotional rate aimed at mailers converting from stamp use to meter use would have been an alternative that used less cap space (thereby minimizing the need to raise the stamp rate as an offset under the adjusted price cap) and minimized the reduction of revenues that may result from the price reduction to current meter users.[[8]]

One does not feed the rest of one's bait to a fish already in the boat. A promotional rate extended to customers who had already adopted the behavior the promotion seeks to encourage amounts to much the same thing.

Adequate revenue. Consequently, the Commission should decide whether the Metered Letter differential, taken together with what seem to be its una-

[8] Ibid.

voidable consequences, violates sec. 3622(b)(5). A promotional rate which has not been shown either to produce or retain profitable volume or to generate new cost savings clearly interferes with obtaining the most revenue reasonably available, and in the Service's present situation, with obtaining "adequate" revenue for financial stability.

A just and reasonable schedule of rates and classifications. The Postal Service's need to price up to the cap, and the resulting taxation of non-eligible mailers to pay for an ineffective promotional price, also implicate sec. 3622(b)(8). A schedule of rates which necessitates this burden on stamp-using mailers, and Single-Piece customers generally, with no evidence of a countervailing benefit to the Service and mailers in general, and an appreciable risk of awarding a "promotional" rate to established meter users for whom the promotion is irrelevant, is not a just and reasonable one.

III. REMEDIES

GCA believes that the continuing[9] lack of focused information as to the promotional effectiveness of the Metered Letter differential, together with the relatively weak performance of the Metered-eligible products in regularly reported volume statistics, justify the Commission in finding it non-compliant, and accordingly directing the Postal Service to discontinue it, or, at the least, scale it down to a level which would materially shrink the revenue sacrifice it entails and the resulting tax on Single-Piece mailers, and stamp users in particular.

As a second-best, from the standpoint of the above-cited objectives, the Commission should (as suggested in our R2017-1 comments) initiate a public inquiry directed to the issues discussed in these comments, those filed by GCA

[9] We note that GCA pointed to the lack of focused information in Docket ACR2014, where we used RPW data to show that the promotion had not increased Metered-eligible volume. See *Initial Comments of the Greeting Card Association,* pp. 5-6. We had pointed to it even earlier, in comments in Docket R2013-10 and in Docket ACR2013, where we suggested what evidence the Postal Service should offer to justify the differential. *Initial Comments of the Greeting Card Association* (January 31, 2014).

and the Public Representative in Docket R2017-1, and GCA filings as far back as the 2013 price-cap proceeding.

February 2, 2017

Respectfully submitted,

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